

5. The municipality did disclosed the detail of the restatements made for prior years as required by GRAP 1, *Presentation of Financial Statements and GRAP 3, Accounting policies, changes in accounting estimates and errors. I was unable to obtain sufficient evidence to confirm the balance of accumulated surplus amounting to R270 202 580 (2011: R250 262 522) as disclosed in the statement of financial position and in the statement of changes in net assets due to supporting documentation that could not be appropriate audit evidence to confirm the balance of accumulated surplus amounting to R270 202 580 (2011: R250 262 522) as disclosed in the statement of financial position and in the statement of changes in net assets due to supporting documentation that could not be*

#### Accumulated surplus

to the amount disclosed for property, plant and equipment. Consequently, I was unable to determine whether any further adjustments were necessary financial statements. I was unable to confirm the amount disclosed by alternative means. unable to obtain sufficient audit evidence to confirm the balance of property, plant and equipment as it was impracticable to do so. In addition, I was also unable to obtain prior financial year. I have not determined the correct net carrying amount of the current and prior financial year. I have not determined the correct net carrying amount of property, plant and equipment in accordance with GRAP 26, *Impairment of cash-generating assets*, for may be impaired in accordance with GRAP 26, *Impairment of cash-generating assets*, for and did not assess whether there is any indication that its property, plant and equipment end in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment*, 4. The municipality did not review the residual values of property, plant and equipment at year-end in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment*, and did not assess whether there is any indication that its property, plant and equipment may be impaired in accordance with GRAP 26, *Impairment of cash-generating assets*, for the current and prior financial year. I have not determined the correct net carrying amount of the current and prior financial year. I have not determined the correct net carrying amount of property, plant and equipment to do so. In addition, I was also

#### Property, plant and equipment

#### Basis for disclaimer of opinion

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PA), the General Notice issued in terms thereof and International Standards on Auditing (ISA), however, I was unable to obtain sufficient audit evidence to provide a basis for an audit opinion. Because of the matters described in the Basis for disclaimer of opinion paragraphs, the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PA), the General Notice issued in terms thereof and International Standards on Auditing (ISA), the audit in accordance with the Public Audit Act of South Africa, 2003 (Act No. 56 of 2003) (MFA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor-General's responsibility

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Accounting Practice (MAM) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

1. I was engaged to audit the financial statements of the Naledi Local Municipality set out on pages xx to xx, which comprises the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and cash flow statement for the year ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### REPORT ON THE FINANCIAL STATEMENTS

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE NALEDI LOCAL MUNICIPALITY

**Revenue**

6. Accounting policy note 1.2.1 is not in accordance with GRAP 9, Revenue from exchange transactions, since revenue from the sale of prepaid meter credit is recognised at the point of sale and not only at the stage when the municipality no longer retains control over the goods sold. As a result, the sale of prepaid electricity revenue was incorrectly managed in accordance to the degree usually associated with ownership or effective control recognised as revenue, instead of deferred income as required by GRAP 9. Due to the volume of transactions involved, I was unable to determine the extent of this misstatement.

7. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the financial performance due to an inadequate system of internal control to account for revenue, the management of the filing system not functioning effectively and services not calculated and charged on a monthly basis. I was unable to confirm the extent of revenue, the management of the filing system not functioning effectively and services not calculated and charged on a monthly basis. I was unable to determine whether any further adjustments were necessary to the amount disclosed for revenue.

8. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the restatement amounting to R914 879 in the corresponding figure of revenue as disclosed in note 28 to the financial statements. Due to a lack of supporting documentation I could not perform alternative procedures to confirm the amount.

9. The municipality made a provision of R48 104 482 (2011: R48 655 630) for the impairment of consumer debtors, however this impairment was not assessed at year-end, for the current and prior year, in accordance with the International Accounting Standard (IAS) 7, Financial Instruments: Disclosures, International Financial Reporting Standard (IFRS) 7, and prior year, in accordance with the International Accounting Standard (IAS) 32, Financial Instruments: Presentation, and IAS 39, Financial Instruments: Recognition and Measurements: Presentation, and IAS 39, Financial Instruments: Recognition and Measurements: Presentation, and IAS 39, Financial Instruments: Recognition and Measurements: Presentation, and IAS 39, Financial Instruments: Recognition and Measurements: Presentation, and IAS 39, Financial Instruments: Recognition and Measurements: Presentation.

10. The municipality did not measure consumer debtors at amortised cost in accordance with IAS 39 and did not disclose the age analysis by major revenue source and by customer classification in accordance with IFRS 7, IAS 32 and IAS 39 and did not differentiate between receivables from exchange and non-exchange receivables in accordance with GRAP 1. The municipality did not comply with these requirements in the current and prior year.

obtained for the movement in the balance in the comparative figures, as well as the limitation on other balances in the statement of financial position. The municipality's records and information available did not permit the application of alternative procedures. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for accumulated surplus.

16. Sufficient appropriate audit evidence as to the completeness and valuation and allocation of contingent liabilities as disclosed in note 32 to the financial statements could not be obtained due to the lack of legal confirmations on pending claims. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for commitments. The municipality's records did not permit the application of reasonable alternative audit procedures and I was unable to gain adequate audit evidence as to the completeness and explanatory comments. I considered necessary to gain adequate audit evidence as to the completeness and

#### Contingent liabilities

15. Sufficient appropriate audit evidence to confirm the balance of commitments disclosed as R13 014 306 (2011: R0) in note 32 to financial statements could not be obtained due to the lack of a proper contract management system for the identification and recognition of contracts, a complete contract register or any other documents to enable me to quantify the commitments. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for commitments.

#### Commitments

14. I was unable to obtain sufficient appropriate audit evidence as to the accuracy, completeness and occurrence of employee-related cost disclosed as R21 813 993 (2011: R21 813 993) in the statement of financial performance and note 20 to the financial statements due to supporting documentation available did not permit the application of alternative procedures. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for employee-related cost.

#### Employee-related cost

13. In addition, I was unable to obtain sufficient appropriate audit evidence for the restatement amounting to R10 763 167 in the corresponding figure of trade and other payables as disclosed in note 28 to the financial statements. Due to a lack of supporting documentation I could not perform alternative procedures to confirm the amount.

payables.

12. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of trade and other payables disclosed as R27 155 491 (2011: R35 716 095) in note 12 to the financial statements due to an inadequate system of internal control to account for trade and other payables and suspense accounts not cleared at year-end. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for trade and other payables.

#### Trade and other payables

11. I was unable to obtain sufficient appropriate audit evidence to confirm the amount of expenditure due to an inadequate system to account for expenditure, the management of the filing system not functioning effectively and transactions being recorded when payment is made instead of being recorded when goods and services are received. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for expenditure.

#### Expenditure

22. In addition, I was unable to obtain sufficient appropriate audit evidence for the restatement amounting to R7 352 967 in the corresponding figure of other receivables as disclosed in note 28 to the financial statements. Due to a lack of supporting documentation I could not perform alternative procedures to confirm the amount.

21. I was unable to obtain sufficient audit evidence to confirm the balance of VAT receivable of R2 972 625 (2011: R8 546 940) as disclosed in note 4 to the financial statements due to an inadequate system of internal control to account for VAT, ledger accounts not used for VAT calculation purposes and reconciliations not performed. In addition, cases were identified where input VAT was not claimed on claimable expenditure and where input VAT was erroneously claimed. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for VAT receivable.

#### Other receivables

19. Sufficiency of audit evidence to confirm the balance of unspent conditional grants disclosed as R3 568 835 (2011: R2 291 794) in note 13 to the financial statements and the occurrence, accuracy, classification and completeness of revenue from grants and subsidies could not be obtained due to the lack of accurate reconciliations between the opening balance of unspent grants and the balance unspent at the end of the financial year. In addition, documentation to establish if all transactions took place according to the conditions of each grant and whether the expenditure against the grants should have been transferred to revenue in the statement of financial performance could not be supplied. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amounts disclosed for unspent conditional grants and receipts.

20. In addition, I was unable to obtain sufficient appropriate audit evidence for the restatement amounting to R15 019 321 in the corresponding figure of unspent conditional grants and receipts as disclosed in note 28 to the financial statements. Due to a lack of supporting documentation I could not perform alternative procedures to confirm the amount.

#### Unspent conditional grants and receipts

10. In addition, I was unable to obtain sufficient appropriate audit evidence for the restatement amounting to R3 038 171 in the corresponding figure of cash and cash equivalents as disclosed in note 28 to the financial statements. Due to a lack of supporting documentation I could not perform alternative procedures to confirm the amount.

17.1. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of cash and cash equivalents disclosed as R6 408 306 (2011: R4 376 599) in the statement of cash equivalents and cash equivalents disclosed as R6 408 306 (2011: R4 376 599) in the statement of cash equivalents and cash equivalents disclosed for cash and cash equivalents and bank overdraft.

### Cash and cash equivalents

Valuation and allocation of pending claims included in continuing liabilities of R9 078 459 (2011: R9 145 918), as disclosed in note 33 to the annual financial statements.

23. The municipality did not disclose investment property in accordance with GRAP 16, investment property. The municipality did not comply with these requirements in the current and prior year. In addition, I was unable to obtain sufficient audit evidence to confirm the balance of investment property disclosed as R2 520 000 (2011: R1 148 268) in note 7 to the financial statement property disclosed as R2 237 065 (2011: R2 383 553), as disclosed in note 29.1 to the financial statements. I was unable to determine whether any further adjustments were necessary to the amount disclosed for investment property and the financial statement system of internal control to account for and identify fruitless and wasteful expenditure, due to the limitations placed on the scope of transactions during the current and prior year. Due to the limitations placed on the scope of the work performed relating to expenditure and the lack of a proper system of internal control to account for and identify fruitless and wasteful expenditure, there were no satisfactory alternative procedures that I could perform to confirm the completeness of fruitless and wasteful expenditure of R2 237 065 (2011: R2 383 553), as disclosed in note 29.1 to the financial statements.

24. I could not be provided with sufficient audit evidence that management has property identified, investigated and recorded all fruitless and wasteful expenditure transactions during the current and prior year. Due to the limitations placed on the scope of the work performed relating to expenditure and the lack of a proper system of internal control to account for and identify fruitless and wasteful expenditure, there were no satisfactory alternative procedures that I could perform to confirm the completeness of fruitless and wasteful expenditure of R2 237 065 (2011: R2 383 553), as disclosed in note 29.1 to the financial statements. I was unable to determine whether any further adjustments were necessary to the amount disclosed for investment property.

25. Sufficient audit evidence to confirm the balance of long-term liability of R537 281 (2011: R651 126) as disclosed in note 9 to the financial statements could not be obtained due to loan agreements, monthly statements or correspondence with finance provider and minutes of the meetings not provided. I was unable to confirm the balance of long-term liability of R537 281 (2011: R651 126) as disclosed in note 9 to the financial statements for all consumer deposits for the current and prior year. Consequently, I was unable to obtain sufficient audit evidence as to the completeness and valuation of consumer deposits of R400 622 (2011: R393 298), as disclosed in the statement of financial position, and the related disclosure in note 10 to the financial statements. The municipality's records and information available did not permit the application of alternative audit procedures and the related disclosure in note 10 to the financial statements. I was unable to determine whether any further adjustments were necessary to the amount disclosed for consumer deposits.

26. I was unable to confirm that management has properly charged and accounted for all consumer deposits for the current and prior year. Consequently, I was unable to obtain sufficient audit evidence to confirm the balance of long-term liability of R400 622 (2011: R393 298), as disclosed in the statement of financial position, and the related disclosure in note 10 to the financial statements. The municipality's records and information available did not permit the application of alternative audit procedures and the related disclosure in note 10 to the financial statements. I was unable to determine whether any further adjustments were necessary to the amount disclosed for consumer deposits.

27. The municipality did not disclose intangible assets separately in the financial statements and also did not include an accounting policy for intangible assets in accordance with GRAP 102, intangible assets, for the current and prior year. In addition, I was unable to obtain sufficient audit evidence to confirm the balance of intangible assets disclosed as R311 040 (2011: R311 040) in note 6 to the financial statements due to an inadequate system to account for intangible assets, software and computer programs. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for intangible assets.

32. I could not be provided with sufficient appropriate audit evidence that management has properly identified and recorded all unauthorised expenditure transactions during the current and prior year. Due to the limitations placed on my audit of expenditure and procurement management at the municipality and the lack of a proper system in place to account for and identify unauthorised expenditure, there were no satisfactory audit procedures that I could perform to confirm the completeness and valuation allocation of unauthorised expenditure of R29 913 092 (2011: R39 279 523), as disclosed in note 29.3 to the financial statements.

#### Unauthorised expenditure

### Cash flow statement

30. GRAPH 19, Provisions, contingencies and contingencies and contingent assets, requires that a provision should be made for the municipality's present obligation incurred as a consequence of its past use of landfill sites. Contrary to these requirements, a provision has not been made for the environmental rehabilitation costs of restoring the municipality's landfill sites for the current and prior year. In the absence of appropriate records and information, I was unable to confirm the valuation and allocation and completeness of provisions at year-end for the current and prior year. Consequently, I was also not able to determine the effect on the other account balances and classes of transactions contained in the financial statements.

## PROVISIONS

29. As 19, Employee benefits, outlines the recognition and requirements pertaining to employee benefits. Contrary to these requirements, the municipality did not disclose post- retirement benefits and long service awards for the current and prior year. In the absence of appropriate records and information, I was unable to confirm the valuation and allocation of and completeness of employee benefits for the current and prior year. Consequently, I was also not able to determine the effect on the other account balances and classes of transactions contained in the financial statements.

### Employee benefits

28. I could not be provided with sufficient appropriate audit evidence that management has properly identified, investigated and recorded all irregular expenditure transactions during the current and prior year. Due to the limitations placed on my audit of expenditure and procurement management at the municipality and the lack of a proper system in place to account for and identify irregular expenditure, there were no satisfactory alternative audit procedures that I could perform to confirm the completeness of irregular expenditure of R108 442 (2011: R1 285 733), as disclosed in note 29.2 to the financial statements.

## Distribution losses and free services

33. Section 125(2)(d)(i) of the MFMA requires that the financial statements of a municipality must disclose particulars of any material losses. No distribution losses or free services provided were disclosed in the notes to the financial statements due to the absence of implementing adequate control measures to reliably calculate these losses. In the absence of sufficient appropriate documents, I was unable to determine the total extent of the understatement in distribution losses.

## Related parties

34. The municipality did not disclose the remuneration of key management personnel in accordance with the International Public Sector Accounting Standard (IPSAS) 20, Related-party disclosures. The remuneration of key management personnel should be disclosed in total and for each of the following categories: short-term employee benefits; post-employment benefits; other long-term benefits; termination benefits and share-based payments. Contrary to these requirements, the municipality did not disclose the related-party transactions for the current and prior year that relates to the compensation of councilors and key management personnel.

## Financial instruments

35. IFRS 7 requires the disclosure of information on liquidity risks, maturity analysis, sensitivity analysis and credit risk exposure relating to financial instruments. Contrary to the minimum disclosure requirements past due but not impaired, as well as the factors that the municipality considered in determining impairment as required by IFRS 7.

## Additional disclosure in terms of MFA

36. Furthermore, the municipality did not disclose gains or losses on financial instruments, trade receivables past due but not impaired, as well as the factors that the municipality considered in determining impairment as required by IFRS 7.

37. I was unable to obtain sufficient appropriate audit evidence to confirm the amounts disclosed in note 30 to the financial statements, due to differences between the disclosure and the supporting documentation that could not be explained. I was unable to confirm the amounts by alternative means.

## Accounting policies

38. The municipality did not disclose the list of all GRAP standards issued, but not yet effective and the effective dates as required by GRAP 3. Furthermore, an accounting policy for judgments, sources of estimation uncertainty and key assumptions as required by GRAP 1 was not disclosed.

## Financial sustainability

39. As a result of the matters described in the basis for disclaimer of opinion paragraphs, the municipality may be in a worse financial position than the position reflected in these financial statements. The difficulties being experienced by the municipality in recovering its consumer debtors, the potential negative effect of this tendency on the cash flows of the municipality and the risk that the municipality may be exposed to settle accounts payable within an acceptable period indicate that there is a risk that the municipality is unable to settle accounts payable within an acceptable period of section 138 of the MFA. The financial statements did not disclose any details of the uncertainty as per note 1.3 to the financial statements and have been prepared on a going concern basis. The municipality's accounting records did not provide sufficient appropriate audit evidence that the municipality is able to continue as a going concern.

**Disclaimer of opinion**

40. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

41. I draw attention to the matters below. My opinion is not modified in respect of these matters:

42. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 30 June 2012 in the annual financial statements of the municipality at, and for the year ended, 30 June 2011.

43. As disclosed in note 3 to the financial statements, material losses to the amount of R448 852 (2011: R14 576 086) were incurred as a result of an increase in the provision for impairment relating to the recoverability of consumer debtors.

44. As disclosed in note 12 to the financial statements, the municipality has materially underspent the budget on municipal infrastructure grant to the amount of R2 869 430. As a consequence, the municipality has not achieved its objectives of providing infrastructure for service delivery.

45. I draw attention to the matters below. My opinion is not modified in respect of these matters:

46. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the annual financial statements.

47. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

**Unaudited supplementary schedules**

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

ii) According to the FIAA and the General Notice issued in terms thereof, report the following findings relevant to performance against predetermined objectives; compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

report. The annual performance report is set out on pages xx to xx of the annual

49. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (FMPI).

50. The material findings are as follows:  
assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

51. Impovement measures in the annual performance report for a total of 38% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

53. The MSA, section 41(c) requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, indicators and targets are not consistent with the objectives, indicators and targets as per the approved IDP. A total of 35% of the reported indicators are not consistent with the indicators as per the approved IDP. A total of 52% of the reported service delivery and budget implementation plan. This is due to the lack of an adequate service delivery and budget implementation plan. The MSA, section 41(c) requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, indicators and targets are not consistent with the objectives, indicators and targets as per the approved IDP. A total of 35% of the reported indicators are not consistent with the indicators as per the approved IDP. A total of 52% of the reported service delivery and budget implementation plan. This is due to the lack of an adequate performance management system.

### Consistency

22. Section 4b of the MSA requires the disclosure of measures taken to improve performance the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 62% measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the measures taken to improve performance.

targets that achieved were not disclosed as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

## Presentation

### Usefulness of information

30. The material findings are as follows:

The terminology of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

49. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (FMPI).

60. Of the total number of planned targets, only 28 were reached during the year under review. This represents 59% of total planned targets that were not reached during the year under review. This was as a result of the municipality not considering relevant systems and evidential requirements during the annual strategic planning process.

### Achievement of planned targets

### Additional matter

Identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain all the information and explanations ; records and procedures for myself as to the completeness and explanations ; considered necessary to satisfy development objectives. This was due to the municipality's records not permitting the application of alternative audit procedures.

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to changes in the level of performance, I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the municipality's records not permitting the application of alternative audit procedures.

See The EMBL-EBI homepage for details.

Reported performance not accurate  
verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 59% of the development objectives. This was due to the municipality's records not permitting the application of alternative audit procedures.

Reported performance not valid

Reliability of information management system.

### Measurability

54. The MfMA, section 54(c) requires that the major must consider, and if necessary, make any revisions to the service delivery and budget implementation plan, provided that revisions to the service delivery targets and performance indicators in the plan may only be made with the approval of the council following approval of an adjustments budget. A total of 9% of objectives, 35% of indicators and 52% of targets reported in the annual performance report were inconsistent with the objectives, indicators and targets as per the approved service delivery and budget implementation plan. This was due to insufficient policies and procedures providing guidance on the requirements of the regulations.

61. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

62. The municipal council did not adopt an IDP, as required by section 25 of the MSA.

63. The municipality did not establish a performance management system that is in line with the priorities, objectives, indicators, responsibilities of each role player in the functioning of the system, did not clarify the roles and frequency of reporting and the lines of accountability for performance, did not determine the responsibilities of each role player in the functioning of targets contained in its IDP, did not clarify the roles and frequency of reporting and the lines of accountability for performance, did not provide for procedures by which the system is linked to the municipality's integrated development planning processes, as required by section 38(a) of the MSA and MPPM Regulations 7(2)(c), (e), (f) and (g).

64. The municipality did not establish mechanisms to monitor and review its performance management system, including outcomes and impact, with regard to the municipality's performance, including outcomes and impact, with regard to each of those development priorities and objectives and against the key performance indicators and targets set out in its IDP.

65. The municipality did not:

- set appropriate key performance indicators as a yardstick for measuring monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set out in its IDP
- monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set out in its IDP
- measure and review performance at least once per year, with regard to each of those development priorities and objectives and against the key performance indicators and targets set
- take steps to improve performance with regard to those development priorities and objectives to improve performance with regard to those development priorities and objectives and against the key performance indicators and targets set
- MSA.

66. Expenditure was incurred that was in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of sections 15 of the MFA.

67. Sufficient appropriate audit evidence could be obtained that quarterly reports were submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFA.

68. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

69. The annual report for the year under review does not include the accounting officer's assessment of the municipality's performance against measurable performance objectives

## Compliance with laws and regulations

61. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

62. The municipal council did not adopt an IDP, as required by section 25 of the MSA.

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- monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set out in its IDP
- measure and review performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set out in its IDP
- take steps to improve performance with regard to those development priorities and objectives and against the key performance indicators and targets set
- MSA.

66. Expenditure was incurred that was in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of sections 15 of the MFA.

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## Budgets

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61. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

62. The municipal council did not adopt an IDP, as required by section 25 of the MSA.

63. The municipality did not establish a performance management system that is in line with the priorities, objectives, indicators, responsibilities of each role player in the functioning of the system, did not clarify the roles and frequency of reporting and the lines of accountability for performance, did not determine the responsibilities of each role player in the functioning of targets contained in its IDP, did not clarify the roles and frequency of reporting and the lines of accountability for performance, did not provide for procedures by which the system is linked to the municipality's integrated development planning processes, as required by section 38(a) of the MSA and MPPM Regulations 7(2)(c), (e), (f) and (g).

64. The municipality did not establish mechanisms to monitor and review its performance management system, including outcomes and impact, with regard to the municipality's performance, including outcomes and impact, with regard to each of those development priorities and objectives and against the key performance indicators and targets set out in its IDP.

65. The municipality did not:

- set appropriate key performance indicators as a yardstick for measuring monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set out in its IDP
- monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set out in its IDP
- measure and review performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set out in its IDP
- take steps to improve performance with regard to those development priorities and objectives and against the key performance indicators and targets set
- MSA.

66. Expenditure was incurred that was in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of sections 15 of the MFA.

67. Sufficient appropriate audit evidence could be obtained that quarterly reports were

70. The annual performance report for the year under review does not include:  
 for revenue collection from each revenue source and for each budget vote and the report of the audit committee, as required by section 121(3)(f) and (j) of the MfMA.

- a comparison with the previous financial year
- measures taken to improve performance, as required by section 46(1) (b) and (c) of the MSA

71. An audit committee was not in place, as required by section 166(1) of the MfMA.

Internal audit

72. An internal audit unit was not established, as required by section 165(1) of the MfMA as there was not a functional internal audit unit established, as required by section 165(1) of the MfMA.

Procurement and contract management

73. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management (SCM) Regulation 17(a) and (c).

74. Quotations were accepted from prospective providers who are not registered on the list of accredited providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM Regulation 16(b).

75. Sufficiency of audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids and that deviations were approved by the accounting officer only if it was impractical to invite competitive bids, as required by the municipality's SCM policy.

76. Sufficiency appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM Regulation 27(2)(a).

77. Sufficiency appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM Regulation 27(3).

78. Sufficiency appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM Regulation 22(1) and 22(2).

79. Sufficiency appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM Regulation 28(2).

80. Sufficiency appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.

81. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM Regulation 29(2).

82. Sufficient appropriate audit evidence could not be obtained that awards made to bidders, other than those recommended by the bid evaluation committee, were ratified by the accounting officer, as required by SCM Regulation 29(5)(b).

83. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act (PPPFA) and SCM Regulation 28(1)(a).

84. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.

85. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA.

86. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 16(3) of the MFA.

87. Sufficient appropriate audit evidence could not be obtained that all extension or modification to contracts were approved by a properly delegated official, as required by SCM Regulation 5.

88. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) and CIDB Regulations 17 and 25(7A).

89. Construction projects were not always registered with the CIDB, as required by section 22 of the CIDB Act and CIDB Regulation 18.

90. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order, as required by SCM Regulation 43.

91. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).

92. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations could not be provided for audit purposes.

Human resource management	
93. The competencies of chief financial officer and supply chain officers were not assessed promptly in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels, regulation 13.	Municipality
94. The municipality did not submit a report on compliance with regulations on Minimum Competency Levels, regulation 14(2)(a).	the National Treasury and the relevant provincial treasury as required by the Municipal Regulations on Minimum Competency Levels, regulation 14(2)(b).
95. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Municipal Regulations on Minimum Competency Levels, regulation 14(2)(b).	Competency Levels, regulation 14(2)(b).
96. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MfMA.	irregular expenditure and fruities and wasteful expenditure steps to prevent unauthorised expenditure, 62(1)(d) of the MfMA.
97. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, 62(1)(d) of the MfMA.	Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MfMA.
98. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MfMA.	An effective system of expenditure control, including procedures for the approval, 65(2)(a) of the MfMA.
99. An effective system of expenditure control, including procedures for the approval, 65(2)(a) of the MfMA.	authorisation, withdrawal and payment of funds, was not in place as required by section 65(2)(a) of the MfMA.
100. Unauthorised, irregular and fruities and wasteful expenditure was investigated and as a result it was not recovered from the liable person, as required by section 32(2) of the MfMA.	officials of the municipality, as required by section 171(4)(a) of the MfMA due to the fact that unauthorised, irregular and fruities and wasteful expenditure was incurred but was not investigated.
101. Investigations were not instituted into all allegations of financial misconduct against officials of the municipality, as required by section 171(4)(a) of the MfMA.	that unauthorised, irregular and fruities and wasteful expenditure was incurred but was not investigated.
102. The municipality did not comply with the requirements of the grant framework, as required by section 12(1) of the DoRA.	The municipality did not evaluate its performance in respect of programmes funded by the end of the financial year, as required by section 12(6) of the DoRA.
103. The municipality did not submit its performance in respect of projects, for projects it intended to implement in the financial year under review, to the provincial Department of Local Government, as required by the Division of Revenue Grant Framework, Government Gazette No 34280.	allocations and submission to the transferring national officer within two months after the end of the financial year, as required by section 12(6) of the DoRA.
104. The municipality did not timely submit project registration forms, for projects it intended to implement in the financial year under review, to the provincial Department of Local Government, as required by the Division of Revenue Grant Framework, Government Gazette No 34280.	to implement in the financial year under review, to the provincial Department of Local Government, as required by the Division of Revenue Grant Framework, Government Gazette No 34280.
105. Sufficient appropriate audit evidence could not be obtained that the allocations for the municipal systems improvement grant and the financial management grant were utilised to the intended purpose.	municipal systems improvement grant and the financial management grant were utilised to the intended purpose.

for purposes other than those stipulated in the grant framework in contravention of section 15(1) of the DoRA.

Revenue management

106. A tariff policy on the levying of fees for municipal services provided by the municipality was not adopted, as required by section 74(1) of the MSA and section 62(1)(f)(i) of the MFMA.

107. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.

108. A policy on the levying of rates on rateable property within the municipality was not adopted, as required by section 3(1) of the Municipal Property Rates Act, 2004 (Act No. 6 of 2004) and section 62(1)(f)(iii) of MFMA.

109. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

110. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

111. Sufficient audit evidence could not be obtained that revenue had been reconciled on a weekly basis, as required by 64(2)(h) of the MFMA.

112. Accounts for municipal tax and charges for municipal services were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

Asset management

113. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

114. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

115. Sufficient audit evidence could not be obtained that capital assets were permanently disposed with the approval of the council or the accounting officer, as required by section 14(2)(a) of the MFMA and Municipal Asset Transfer Regulation 5.

Liability management

116. A management, accounting and information system which adequately accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

117. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.

Environmental

118. The municipality operated their waste disposal sites without a waste management licence or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) and section 20(1) of the Environmental Management Conservation Act, 1989 (Act No. 73 of 1989).

**Internal control**

119. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the significant deficiencies below under the fundamentals of internal control relevant to my audit of the financial statements, annual report and the findings on compliance with laws and regulations included in this report.

**Leadership**

120. The accounting officer position was vacant for the year under review.

121. The acting accounting officers did not evaluate whether management had implemented effective internal controls by gaaining an understanding of how senior management members had met their responsibilities in terms of preparing bank reconciliations, which resulted in non-compliance with supply chain management directives, action to address weaknesses in the finance and supply chain management did not take timous and adequate measures and address non-performance was evident by the failure of management to adequately analyse the control findings in a timely manner. The municipality failed to properly address the external audit findings in a timely manner. The municipality failed to ensure compliance with laws, regulations and internally developed controls to ensure adequate controls and senior managers failed to implement adequate controls to ensure compliance with laws, regulations and internally developed controls that adequately addressed the root cause. This resulted in the audit findings in the prior year report being recurring in the current year.

122. The acting accounting officers and senior managers did not ensure that annual controls, fruitful and wasteful and irregular expenditure, unauthorized, fruitless and wasteful and irregular expenditure.

123. The acting accounting officers and senior managers of the municipality did not ensure that internal control procedures were developed, implemented and monitored to ensure that daily disciplines were performed and reviewed.

124. The lack of decisive action to mitigate emerging risks, implementation timely corrective measures and address non-performance risks, implementation timely corrective measures and address weaknesses in a timely manner. The municipality failed to properly analyse the control findings in a timely manner. The municipality failed to ensure compliance with laws, regulations and internally developed controls to ensure adequate controls and senior managers failed to implement adequate controls to ensure compliance with laws, regulations and internally developed controls that adequately addressed the root cause. This resulted in the audit findings in the prior year report being recurring in the current year.

**Financial and performance management**

125. The acting accounting officers and senior managers failed to implement adequate controls to ensure compliance with laws, regulations and internally developed controls to ensure adequate controls and senior managers were not been adequately developed and implemented.

126. Effective performance systems, processes and procedures as well as the management thereof had not been adequately developed and implemented.

127. Inadequate filing procedures at the municipality resulted in limitations of scope during the current and previous year's audits. As a result significant difficulties were experienced in respect of the availability of information.

128. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing. This resulted in many findings relating to incorrect disclosure.

129. The municipality did not have the capacity to address backlog issues and financial system preparation of an asset register and financial statements.

130. Finance staff had an insufficient understanding of the accounting framework. This contributed towards the numerous qualifications in the financial statements of the municipality.

131. The financial statements contained numerous inaccuracies, which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting, and weaknesses in the information systems.
132. The municipality did not have a documented fraud prevention plan. Internal control deficiencies were not identified and communicated in a timely manner to allow for corrective action to be taken. The implementation of external audit recommendations was not monitored. This resulted in the prior year audit findings not being substantially addressed.
133. Although the municipality had an internal audit division, it was not adequately resourced and functioning to identify internal control deficiencies and provide recommendations.
134. An audit committee and performance audit committee was not in place for the financial year.

133. Although the municipality had an internal audit division, it was not adequately resourced and functioning to identify internal control deficiencies and provide recommendations.

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## Governance

### Auditing to build public confidence

SOUTH AFRICA



30 November 2012

Blouemfontein  
Oudtshoorn-Lydenburg